

Message Text

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FM AMEMBASSY PRAGUE

TO USDOC WASHDC

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UNCLAS SECTION 1 OF 2 PRAGUE 2788

COMMERCE FOR BEWT/TPD (THOMPSON)

E.O. 11652: N/A

TAGS: BEXP, CZ

SUBJ: THEME SELECTION FOR BRNO FAIR 1976

REF: USDOC 14122

1. SUMMARY: EMBASSY RECOMMENDS THAT HOSPITAL AND MEDICAL EQUIPMENT BE THEME OF USATECH EXHIBIT AT 1976 BRNO ENGINEERING FAIR, BUT CAUTIONS THAT EXHIBITORS MUST REALIZE TRADE WITH CZECHOSLOVAKIA AT PRESENT TIME ONLY FOR FIRMS THAT ARE COMMITTED TO LONG-TERM DEVELOPMENT OF THIS MARKET, AND ARE WILLING TO WAIT FOR RESULTS. END SUMMARY.

2. EMBASSY DOUBTS THAT THEMES SUGGESTED IN PARA 2 REFTEL COULD BE SUCCESSFUL AT 1976 BRNO ENGINEERING FAIR. IT IS NOT CLEAR THAT CZECHOSLOVAKS ARE PREPARED TO IMPORT LARGE QUANTITIES OF WESTERN MINING EQUIPMENT. THEIR OWN EQUIPMENT SUPPLEMENTED BY THAT PRODUCED ELSEWHERE IN COMECON IS, WE JUDGE, PRETTY GOOD OR AT LEAST GOOD ENOUGH SO THAT CZECHOSLOVAKS DO NOT FEEL CONSTRAINED TO MAKE SIGNIFICANT HARD CURRENCY PURCHASES. APPARENTLY OUR WESTERN COMPETITORS AGREE, JUDGING BY ABSENCE OF WESTERN MINING EQUIPMENT AT RECENT BRNO ENGINEERING FAIRS. TO OUR KNOWLEDGE, THERE HAS BEEN UNCLASSIFIED

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NO SIGNIFIANT BUSINESS RELATIONSHIP ARISING FROM U.S.

MINING TRADE MISSION WHICH VISITED PRAGUE IN APRIL, 1975.

3. FOOD PACKAGING AND PROCESSING EQUIPMENT OFFERS POSSIBILITIES, OF COURSE, ESPECIALLY GIVEN FACT THAT GOVERNMENT DESIRES TO IMPROVE PEOPLE'S DIET, AND IN PROCESS, TO INCREASE AVAILABILITY OF CONVENIENCE FOODS WHICH WOULD LIGHTEN BURDEN OF NATION'S WORKING WIVES AND MOTHERS WHO NOW COMPRISE ALMOST HALF OF TOTAL WORK FORCE. THIS EQUIPMENT, HOWEVER, MUST BE SHOWN EITHER AT SALIMA OR EMBAX TRADE FAIRS WHICH OCCUR IN SPRING AND EARLY SUMMER, AND IS OUTSIDE SCOPE OF BRNO ENGINEERING FAIR IN FALL. THESE ARE IMPORTANT SPECIALIZED FAIRS -- PARTICULARLY SALIMA -- BUT NEITHER MERITS A USATECH EXHIBIT AT EXPENSE OF U.S. PARTICIPATION AT BRNO ENGINEERING FAIR, WHICH WE VIEW AS CENTERPIECE OF OUR TRADE PROMOTION EFFORT IN CZECHOSLOVAKIA.

4. POLLUTION CONTROL EQUIPMENT IS A NON-STARTER AT PRESENT TIME. THERE IS, OF COURSE, OFFICIAL CONCERN IN CZECHOSLOVAKIA OVER AIR AND WATER POLLUTION, BUT IT DOES NOT APPEAR THAT THIS CONCERN WILL BE TRANSLATED INTO MAJOR EQUIPMENT PURCHASES SOON. CZECHS ARE ALREADY WELL ACQUAINTED WITH POLLUTION CONTROL EQUIPMENT PRODUCED IN WEST, INCLUDING THAT IN U.S., AND HAVE SENT (OR ARE SENDING) TECHNICAL TEAMS TO SEE IT IN OPERATION. A MAJOR EQUIPMENT EXHIBITION THUS WOULD BE MARGINALLY USEFUL AT BEST, IN OUR JUDGMENT, PARTICULARLY AT A TIME WHEN OTHER, MORE PRESSING PRIORITIES ARE CLAMORING FOR SCARCE HARD CURRENCY RESOURCES.

5. MATERIALS HANDLING EQUIPMENT WOULD SEEM TO BE A GOOD CHOICE, BECAUSE MORE EFFICIENT MATERIALS HANDLING WOULD FREE LARGE NUMBERS OF WORKERS IN THIS LABOR-SHORT ECONOMY. BUT WE ARE NOT CONVINCED THAT DECISION-MAKERS YET REALIZE SERIOUSNESS OF PROBLEM, AND ARE PERHAPS NOT YET PREPARED TO CONTEMPLATE MASSIVE INVESTMENTS THAT WESTERN OBSERVERS OR EVEN CZECHOSLOVAK INDUSTRY ANALYSTS MIGHT OTHERWISE THINK WERE CALLED FOR. THERE IS ALSO SIGNIFICANT AND ACCEPTABLE COMECON PRODUCTION IN THIS CATEGORY. NEVERTHELESS, IT IS AN IMPORTANT AREA OF NEED AND ONE WHICH WE SHOULD BEAR IN MIND FOR FUTURE BRNO FAIR EXHIBITS.

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6. IN ASSESSING ANY PRODUCT CATEGORY AS POSSIBLE THEME FOR U.S. EXHIBIT AT BRNO ENGINEERING FAIR (1976), ACCOUNT MUST BE TAKEN OF DEPRESSING EFFECT ON U.S. SALES PROSPECTS CAUSED BY AS YET UNSETTLED MFN-GOLD/CLAIMS ISSUE. NONE OF ABOVE-DISCUSSED EQUIPMENT IS OF TYPE WHICH CZECHS ABSOLUTELY MUST BUY FROM U.S. FIRMS. GIVEN THEIR RECENTLY- STATED DETERMINATION TO BUY AS LITTLE AS POSSIBLE FROM U.S. UNTIL OUTSTANDING FINANCIAL/CLAIMS ISSUES ARE RESOLVED, IT

WOULD MAKE GOOD SENSE FOR US TO SELECT PRODUCTS WHICH MIGHT
INDUCE CZECHOSLOVAKS TO OVERRIDE THEIR OWN POLITICAL OBJECTIONS
AGAINST EQUIPMENT PURCHASES IN U.S. WE THINK, PARTLY ON BASIS
OF HIGH DEGREE OF COOPERATION SHOWN BEWT/TPD OFFICER BUSHERY
BY OFFICIALS IN CZECH MINISTRY OF HEALTH, THAT HOSPITAL
AND MEDICAL EQUIPMENT (HME), WITH ITS HUMANITARIAN CHARACTER,
IS ONE PRODUCT LINE WE CAN SUCCESSFULLY PROMOTE
PENDING RESOLUTION OF CURRENT UNDERLYING PROBLEMS IN U.S. -
CZECHOSLOVAK RELATIONS. UNFORTUNATELY, A SEARCH OF EMBASSY
FILES DOES NOT REVEAL COPY OF BUSHERY'S NOTES ON SPECIFIC HME
IN WHICH WE UNDERSTAND MINISTRY OFFICIALS EXPRESSED SPECIFIC
INTEREST. WE ARE THUS NOT ABLE TO COMMENT IN MORE DETAIL ON
HIS PRELIMINARY MARKET RESEARCH. UNDER PRESENT CIRCUMSTANCES,
HOWEVER, WE CAN THINK OF NO BETTER THEME (WITH POSSIBLE
EXCEPTION OF PLASTICS FORMING EQUIPMENT -- SEE BELOW) FOR
NEXT YEAR'S BRNO FAIR, ASSUMING THAT FRONT-LINE,
PREFERABLY NEW-TO-MARKET, U.S. MANUFACTURERS CAN BE
PERSUADED TO EXHIBIT. OUR BEST ESTIMATE, ON THE BASIS OF
CZECHOSLOVAK STATISTICS WHICH ARE NOT DISAGGREGATED AND
THEREFORE BARELY SUFFICIENT FOR THE PURPOSE, AND USING A
CROWN-DOLLAR RATE OF TEN TO ONE, IS THAT CZECHOSLOVAKIA
IMPORTS ABOUT \$20 MILLION PER YEAR OF HME. THE GLOBAL
MARKET RESEARCH STUDY ON LABORATORY INSTRUMENTS IN
CZECHOSLOVAKIA COMPLETED IN MARCH, 1975, IS CLOSELY RELATED
TO HME CATEGORY AND MAY BE A USEFUL SOURCE OF COMMERCE
IN DETERMINING LIKLIHOOD OF SUCCESS OF AN EXHIBITION OF HME
AT BRNO NEXT YEAR. IN ADDITION, AN EMBASSY OFFICER WILL BE
TRAVELING SOON TO BRATISLAVA TO DISCUSS HME POTENTIAL WITH
SLOVAK MINISTRY OF HEALTH. SEPARATE REPORT ON THAT MEETING,
IF IT CAN BE ARRANGED, WILL BE SUBMITTED IN LATE NOVEMBER.
PERRY

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7. ACCORDING TO COMMERCE DEPARTMENT DATA, THE VALUE OF U.S. EXPORTS OF HME TO CZECHOSLOVAKIA IN 1974 WAS JUST UNDER \$945,000 (INCLUDING CERTAIN ITEMS WITHIN FOLLOWING FIVE-DIGIT SITC CATEGORIES: 726.10, 729.52, 861.11, 861.12, 861.69, 861.71, 861.72, 861.98, 861.99 AND 899.62). DURING FIRST EIGHT MONTHS OF 1975, EXPORT VALUE OF SIMILAR GROUP OF PRODUCTS TO CZECHOSLOVAKIA TOTALLED NEARLY \$450,000. SINCE CZECHOSLOVAK IMPORTS TEND TO BE CONCENTRATED IN LAST QUARTER, WE EXPECT 1975 IMPORTS OF U.S. MEDICAL EQUIPMENT TO APPROXIMATE 1974 LEVEL. THIS IS IN CONTRAST TO MOST MANUFACTURED PRODUCTS FROM U.S., WHOSE SALES IN CZECHOSLOVAKIA HAVE DECLINED IN 1975. GIVEN OPTIMUM CONDITIONS, POTENTIAL U.S. EXPORTS OF THIS EQUIPMENT COULD REACH JUST UNDER \$3 MILLION IN 1977, ACCORDING TO BEWT/TAD COMPUTER PROJECTION. AS NOTED ABOVE, CZECHOSLOVAK OFFICIAL TRADE STATISTICS ARE TOO GENERAL TO BE OF MUCH HELP IN PROJECTING MARKET TRENDS. ONE FINAL ARGUMENT FOR SELECTION OF HME AS THEME OF U.S. EXHIBIT LIES IN FACT THAT AN EQUIPMENT EXHIBIT NEXT YEAR WOULD BE LOGICAL -- IF SOMEWHAT DELAYED -- FOLLOW-ON TO HME CATALOG DISPLAY MOUNTED AT BRNO IN 1972.

8. WE HAD EARLIER CONSIDERED RECOMMENDING PLASTICS FORMING EQUIPMENT AS A GOOD LINE TO PROMOTE, BUT CZECHOSLOVAK MINISTRY OF INDUSTRY, WHICH CCNTROLS PLASTICS INDUSTRY IN UNCLASSIFIED

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CZECH LANDS (BOHEMIA AND MORAVIA) CLAIMED THAT DRAFT SIXTH FIVE-YEAR PLAN HAD NOT YET BEEN COMPLETED FOR PLASTICS INDUSTRY AND IT WAS NOT EXPECTED TO BE READY BEFORE FEBRUARY, 1976. ACCORDING TO PRELIMINARY INDICATIONS EMANATING FROM STATE PLANNING COMMISSION, HOWEVER, INVESTMENT IN PLASTICS INDUSTRY WILL RISE SIGNIFICANTLY (BY NEARLY TEN PERCENT PER YEAR) DURING UPCOMING PLAN PERIOD. THESE NEW INVESTMENTS APPARENTLY HAVE NOT YET BEEN FULLY SETTLED UPON AND IN VIEW OF ENERGY CRISIS, MAY NOT TAKE PLACE UNTIL LATER IN FYP PERIOD. TECHNICAL SALES SEMINAR ON PLASTICS EQUIPMENT TENTATIVELY SCHEDULED TO COME TO CZECHOSLOVAKIA IN MAY, 1976, WILL PERMIT US TO GAUGE MARKET MORE CLOSELY, LOOKING TOWARD AN EXHIBITION OF PLASTICS PRODUCTION AND FORMING EQUIPMENT AT BRNO IN EITHER 1977 OR 1978 WHEN, HOPEFULLY, CZECHOSLOVAKS WILL BE MORE WILLING (AND ABLE) TO TRADE WITH U.S.

9. WE THINK IT ESSENTIAL THAT COMMERCE MAKE CLEAR TO

POTENTIAL U.S. EXHIBITORS IN CZECHOSLOVAKIA THAT PARTICIPATION AT BRNO ENGINEERING FAIR IS ONLY FIRST STEP FOR NEW-TO-MARKET FIRMS. THEY SHOULD COME EXPECTING TO GAIN EXPOSURE AND TO MAKE INITIAL CONTACTS WHOM THEY WILL HAVE TO CONTINUE CULTIVATING FOR PERHAPS SEVERAL YEARS BEFORE IMPORTANT SALES RESULT. WE HAVE FOUND THAT UNREALISTIC SALES EXPECTATIONS ARE COMMON AMONG SMALLER FIRMS INEXPERIENCED IN EXPORTING, PARTICULARLY TO EAST EUROPEAN MARKETS WHERE ENTRENCHED BUREAUCRACY AND ESTABLISHED BUSINESS PATTERNS ARE HARD TO OVERCOME. MOREOVER, IN VIEW OF OUTSTANDING GOLD/CLAIMS ISSUE IN CZECHOSLOVAKIA, COMMERCE WILL WANT TO IMPRESS ON POTENTIAL EXHIBITORS NEED FOR EXTRA DOLLOP OF PATIENCE IN GAINING ENTRANCE TO WHAT EMBASSY CONTINUES TO BELIEVE WILL ONE DAY BE EXTREMELY LUCRATIVE MARKET FOR U.S. EQUIPMENT SUPPLIERS. IT MAY BE POINTED OUT THAT SOME LARGE U.S. CORPORATIONS WHICH HAVE STAYED THE COURSE AND NOW ENJOY CONFIDENCE OF THEIR CZECHOSLOVAK TRADING PARTNERS, TELL US THAT CURRENT PROFIT MARGINS ON THEIR SALES TO CZECHOSLOVAKIA ARE SIGNIFICANTLY HIGHER THAN THOSE IN WESTERN EUROPE. IN SUM, WHILE WE FULLY EXPECT THAT OBSTACLES TO EXPANDED U.S./CZECHOSLOVAK TRADE RELATIONS WILL BE HURDLED WITHIN NEXT YEAR OR TWO, THERE IS CLEAR NEED THIS YEAR NOT TO OVERSELL IMMEDIATE SALES PROSPECTS IN RECRUITING U.S. FIRMS

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FOR PARTICIPATION AT 18TH ANNUAL BRNO ENGINEERING FAIR.

10. EMBASSY WOULD BE GRATEFUL FOR EARLY NOTIFICATION OF COMMERCE'S DECISION ON THEME SELECTION FOR NEXT YEAR'S FAIR. PERRY

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